How the Tech Parade Passed Sony By

By HIROKO TABUCHI

TOKYO

THE lights dimmed. The crowd hushed. The teleprompters flickered.

Kazuo Hirai stepped up and flashed a winning smile: it was show time. The scene was oddly upbeat inside the Sony Corporation last Thursday as Mr. Hirai, the company’s new chief executive, faced the cameras. He outlined a strategy that, he vowed, would return the troubled electronics giant to profit.

“The time for Sony to change is now,” said Mr. Hirai, who formally took up the C.E.O. post on April 1. He posed for the cameras, one finger held high in a No. 1 sign. “I believe Sony can change,” he said.

Outside Sony — and inside it, too — not everyone is quite so sure.

That is because Sony, which once defined Japan’s technological prowess, wowed the world with the Walkman and the Trinitron TV and shocked Hollywood with bold acquisitions like Columbia Pictures, is now in the fight of its life.

In fact, it is in a fight for its life — a development that exemplifies the stunning decline of Japan’s industrialized economy. Once upon a time, Japan Inc., not to mention Sony itself, seemed invulnerable. Today, Sony and many other Japanese manufacturers are pressed on all sides: by rising Asian rivals, a punishingly strong Japanese yen and, in Sony’s case, an astonishing lack of ideas.

No one was terribly surprised last week when Sony announced that its losses this year would be worse than it had expected. Sony, after all, hasn’t turned a profit since 2008. It now expects to lose $6.4 billion this year. The reason is plain: Sony hasn’t had a hit product in years.

The verdict of the stock market has been swift and brutal. Sony’s share price closed at 1,444 yen ($17.83) on Friday, a quarter of its value a decade ago and roughly where it stood in the
mid-1980s, when the Walkman ruled. Sony’s market value is now one-ninth that of Samsung Electronics, and just one-thirtieth of Apple’s.

Even in Japan, where many consumers remain loyal to the brand, some people seem to be giving up on the company.

“It’s almost game over at Sony,” said Yoshiaki Sakito, a former Sony executive who has worked for Walt Disney, Bain & Company, Apple and a start-up focused on innovation training. “I don’t see how Sony’s going to bounce back now.”

WHAT went wrong is a tale of lost opportunities and disastrous infighting. It is also the story of a proud company that was unwilling or unable to adapt to realities of the global marketplace.

Sony’s gravest mistake was that it failed to ride some of the biggest waves of technological innovation in recent decades: digitalization, a shift toward software and the importance of the Internet.

One by one, every sphere where the company competed — from hardware to software to communications to content — was turned topsy-turvy by disruptive new technology and unforeseen rivals. And these changes only highlighted the conflicts and divisions within Sony.

With its catalog of music and foundation in electronics, Sony had the tools to create a version of the iPod long before Apple introduced it in 2001. The Sony co-founder, Akio Morita, envisioned as early as the 1980s marrying digital technology with media content for a completely new user experience.

It didn’t happen. Initially, Sony engineers resisted the power of the company’s media divisions. Then Sony wrestled with how to build devices that let consumers download and copy music without undermining music sales or agreements with its artists. The company went its own way: its early digital music players, for instance, used proprietary files and were incompatible with the fast-growing MP3 format.

By the time the different divisions had been corralled into cooperating, Sony had lost its foothold in two crucial product categories: televisions and portable music devices. It was late to flat-panel displays, as well as to digital music players like the iPod.

After disappointing sales, Sony pulled the plug on its answer to Apple’s iTunes, the Sony Connect online store, after just three years. It has not been able to offer up a comprehensive alternative since.
Lower-cost manufacturers from South Korea, China and elsewhere, meanwhile, are increasingly undercutting Sony and other high-end electronics makers. As Sony’s brand started losing much of its luster, the company found that it had a harder time charging a premium for its products.

“At this point, Sony just needs some strategy, any strategy, because that is better than no strategy at all,” said Sea-Jin Chang, chairman for business policy at the National University of Singapore and author of “Sony vs. Samsung: The Inside Story of the Electronics Giants’ Battle for Global Supremacy.”

AN area where Sony has found success — and perhaps one that most crystallizes the transition from stand-alone consumer electronics into a digital, Internet-centered world — is video games. Sony marketed its PlayStation 3 console, for example as an integrated entertainment system that serves as a hub in the living room, connecting the Internet and television.

But Sony’s obsession with hardware has marred that strategy. A delay in developing the console’s Blu-ray DVD player forced Sony to push back its release. Sales suffered because the PlayStation 3 cost much more than rival models from Nintendo and Microsoft. Sony was also slow to move into the world of online games, giving Microsoft a head start.

Sony’s woes mirror a wider decline in Japanese electronics. Though executives here are quick to blame a strong yen, which hurts exports, a deeper issue is that once-innovative companies seem to have run out of ideas. And when a nation can no longer compete on abundant labor or cheap capital, ideas and innovation are paramount.

Japanese consumer electronics manufacturers “have lost their technology leadership in many areas,” Steve Durose, head of Asia Pacific telecommunications, media and technology ratings at Fitch Ratings, said in a recent industry commentary.

“Ten years ago, these companies were major technology innovators, the creators or leading developers of many electronic products and trendsetting devices such as televisions, digital cameras, portable music players and games consoles,” Mr. Durose said. “Today, however, the number of products remaining where they can boast undisputed global leadership has narrowed significantly, having being usurped or equaled by the likes of Apple and Samsung Electronics.”

Both publicly and privately, Sony’s top management shows a deep understanding of many of these fundamental challenges: the need for different sections of the company to work better together, for a more unified user experience, for innovation.
But Sony’s recent leaders have had trouble wielding authority over the sprawling company. Sony remains dominated by proud, territorial engineers who often shun cooperation. For many of them, cost-cutting is the enemy of creativity — a legacy of Sony’s co-founders, Mr. Morita and Masaru Ibuka, who tried to foster a culture of independence. But the founders had more success than recent executives in exerting control over division managers.

Executives complain privately of recalcitrant managers who refuse to share information or work with other divisions. One executive said he was startled to discover that a manager whose position had been eliminated had been rehired under a different title. (“Or maybe he never really left,” said this executive, who spoke on condition of anonymity out of fear of angering his bosses.)

In 2005, such challenges prompted Sony to select Howard Stringer, a British-born American businessman, as C.E.O., rather than Ken Kutaragi, the brains behind PlayStation. Mr. Stringer had a record as an agent of change: as head of Sony in the United States, he oversaw music, movies and electronics there and eliminated 9,000 of 30,000 jobs.

At his first news conference as C.E.O., Mr. Stringer declared that he would “accelerate cross-company collaboration, thereby revitalizing the company and promoting creativity.”

But not even Mr. Stringer, who has stepped aside for Mr. Hirai but will remain as chairman, could break down all the silos at Sony.

The company still makes a confusing catalog of gadgets that overlap or even cannibalize one another. It has also continued to let its product lines mushroom: 10 different consumer-level camcorders and almost 30 different TVs, for instance, crowd and confuse consumers.

“Sony makes too many models, and for none of them can they say, ‘This contains our best, most cutting-edge technology,’ ” Mr. Sakito said. “Apple, on the other hand, makes one amazing phone in just two colors and says, ‘This is the best.’ ”

Sony’s online strategy is problematic as well. The company has yet to come up with an integrated common platform to deliver music, movies and games, each of which, until recently, had its own network, with other platforms like the PlayMemories photo- and video-sharing services to boot.

Now, these disjointed services, developed by far-flung units, are being forced into the Sony Entertainment Network, which Sony says will be its overarching content delivery platform.

The services “have different looks, feels and user-experiences” and are “super-disjointed,” said a former Sony executive who left in frustration. He spoke on condition of anonymity,
saying he did not want to hurt relations with his former employer. “Sony has been talking networks for so long, but there’s really nothing very tangible,” he said.

Sony’s woes hurt not just Sony, but also Japan. In the United States, new technologies are often developed by young companies not held back by their past. These upstarts eventually replace slow-to-adapt giants. But in Japan, no major electronics manufacturer has joined the industry’s top ranks for over a half-century. And, though struggling, companies like Sony continue to lure some of the country’s top talent.

Still, the creative destruction of global capitalism is a touchy subject in Japan, where public opinion still sides with established names. When Tomoko Namba, founder of the successful mobile games company DeNA, remarked in 2010 that companies like Nintendo and Sony “had reached retirement age” and that she hoped DeNA would be the first new Japanese tech company in decades to go global, she set off a firestorm in the Japanese blogosphere.

WHERE will Sony go from here? Experts say it will have to start exiting some product lines. It has already spun off a chemicals business, for instance, and some analysts wonder about its money-losing TV business.

Mr. Hirai, the new C.E.O., has said that the company will focus on three businesses: mobile devices, including smartphones and tablets; cameras and camcorders; and games. But he says Sony will not retreat in TVs. “It’s at the center of every home,” he said last week. “It is part of Sony’s DNA”

Some analysts wonder if Mr. Hirai — who previously ran the money-losing games and TV businesses — is the right man to lead Sony. A protégé of Mr. Stringer, he appears to have been appointed as much for his ease in English as his management skills, analysts say.

“The bottom line is: if you want to be perceived as a creator of cool tech, you have to create cool tech. The challenge for Sony is that those examples have not been there, and they haven’t been there now for a number of years,” said Steve Beck, founder and managing partner at cg42, a management consulting firm that focuses on brand vulnerabilities at top tech companies. “The tarnish on their brand has definitely begun.”